FARMERS' NEWSLETTER
Soybeans

August 81/S-18

As the soybean marketing year winds down, price prospects look very different from last summer. This time last year, soybean prices were rallying strongly as reports of sustained drought and heat swept the market. The rally continued through November, peaking at $8.18 a bushel at the farm that month, and then fell apart as negative demand factors pulled prices down. After stabilizing for a while this spring, prices have once again turned downward--averaging $6.99 a bushel in mid-June.

What broke last fall's rally?

- high interest rates, which weakened inventory demand for soybeans;
- record soybean crops in South America;
- reduced U.S. livestock inventories; and
- burdensome world supplies of vegetable oils.

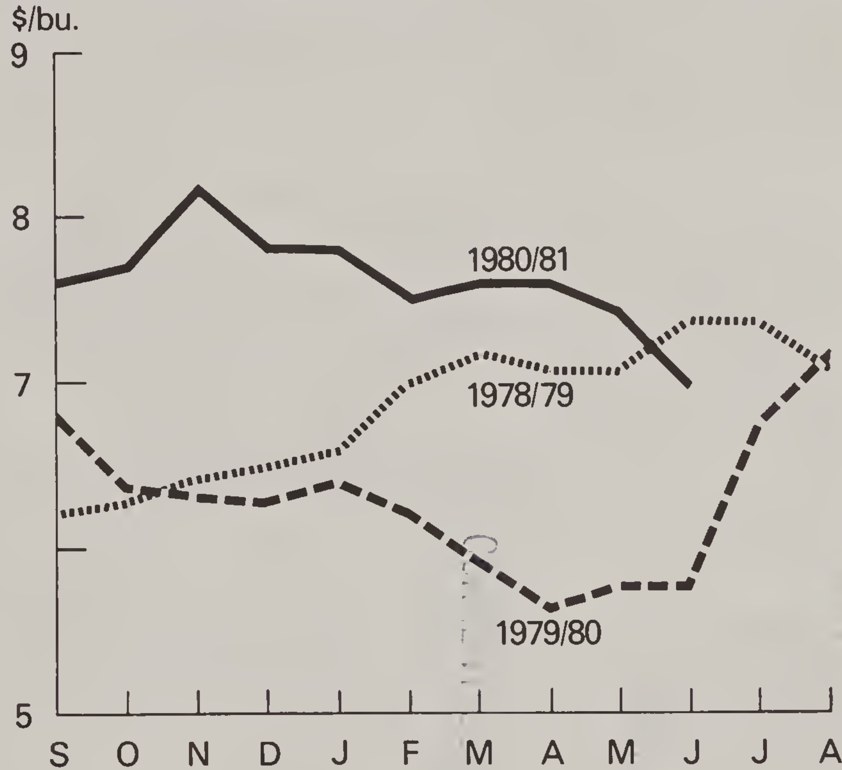
All these elements weakened the demand--both domestic and foreign--for U.S. beans, with short domestic supply considerations taking a back seat to weak demand in the price equation.

1981 Crop Could Reach 2 Billion Bushels

Now, however, with the 1981 soybean crop in the ground and planted acreage estimates firming up, the market's attention is shifting to developments affecting the size of the new U.S. crop.

Farmers seeded about 68.7 million acres to soybeans this spring, down

SOYBEAN FARM PRICES DECLINE FROM LAST FALL'S HIGH



from 70.1 million in 1980. Even so, conditions to date suggest that soybean yields will recover to trend--well above last year's yields. Trend yields would produce a crop of about 2 billion bushels, 10 percent larger than last year.

The first forecast of 1981 soybean yields based on in-the-field counts will be released in the August 12 U.S. crop report. Take note of that report, for you can bet the market will react to it and to subsequent monthly fore-casts of 1981 soybean output. The

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effects of this year's increase in double-cropped acreage (15 percent of the total) and the late plantings in the eastern Corn Belt will be of particular interest.

Price Prospects Weaken

In the coming season, soybean farm prices will hinge heavily on the harvest outcome. With a crop of 2 billion bushels, prices will likely fall in the range of $6.50 to $8.50 a bushel, perhaps averaging around 25 cents below this season's estimated $7.55. Here's why:

- Because crushings and exports have lagged behind expectations so far this marketing year, the carryover projected for September 1 has been raised to 295 million bushels. Although below last year's carryover, this amount would still be more than adequate given supply/demand prospects for the new crop year.

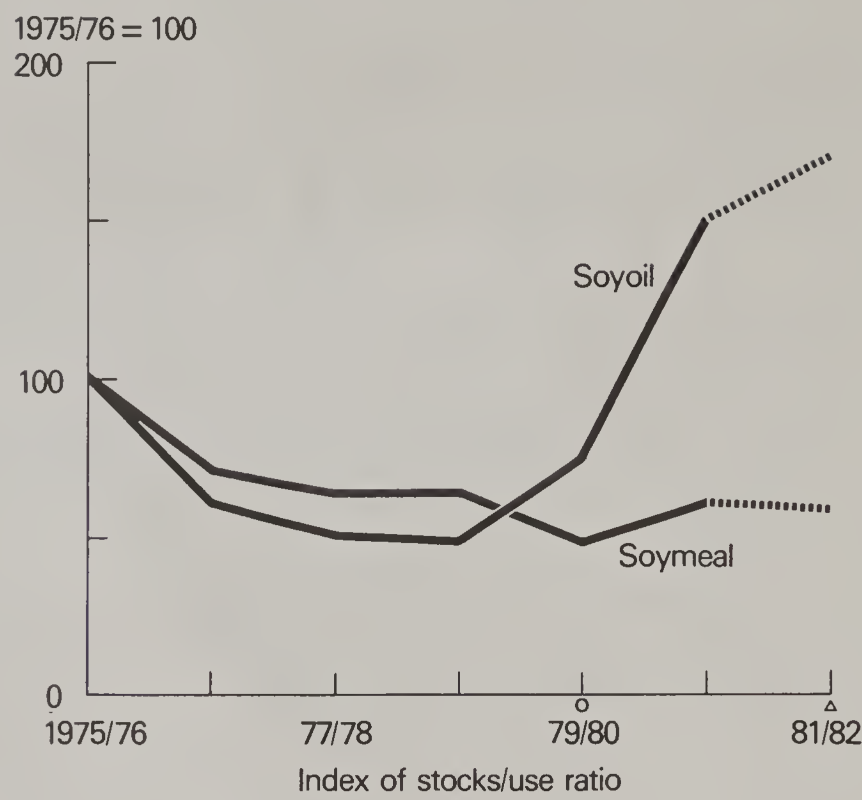
- The excessive world stocks of soyoil this year could climb even further

CARRYOVER STOCK ESTIMATE RAISED

Year beginning September 1	1979/80	1980/81 Estimate	1981/82 Projected[1]
		million bushels	
Beginning stocks	174	359	295
Production	2,268	1,817	2,005 ± 170
Total supply	2,442	2,176	2,300 ± 170
Crushings	1,123	1,040	1,080 ± 65
Exports	875	750	825 ± 60
Seed, etc	68	70	80
Residual	17	21	10
Total use	2,083	1,881	1,995 ± 100
Ending stocks	359	295	305
		dollars per bushel	
Farm price	6.28	7.25	6.50-8.50
Loan rate	4.50	5.02	5.02

[1] As of July 13, 1981. Chances are 2 out of 3 that the outcome will fall within the ranges indicated.

U.S. SOYOIL STOCKS EXCESSIVE



○ Estimate. △ Forecast.

next season. Large supplies of soyoil have led soybean users--particularly in Europe--to favor imports of meal rather than beans, because crushing beans would only add further to unwanted soyoil stocks.

- Although demand for soybeans and products will probably pick up next season, a U.S. crop of 2 billion bushels or more could still cause stocks to increase. U.S. soyoil stocks could climb 20 percent, with meal stocks staying about the same. Ending stocks of soybeans could rise 3 percent to 305 million bushels. Since farm prices for soybeans derive from the value of the products, the anticipated gain in soyoil stocks could be a factor in moderating soybean prices in the coming season.

- But keep in mind that soybean prices are very volatile. For example, lower U.S. interest rates or short South American crops could sharply raise demand for U.S. soybeans and products, causing a runup in prices.

Also, actual production could differ greatly from the midpoint (2 billion bushels) of our projected range.

Prices could rally if crop prospects turn down, and of course could weaken if prospects improve. Because of this uncertainty, you will need a flexible marketing plan, one that will permit quick reaction to any shift in crop prospects.

One way to protect yourself against such price uncertainty is to spread your sales throughout the marketing year. That way, you may receive prices near the season's average.

Seasonal Price Changes Significant

While an analysis of market fundamentals helps gauge price changes from season to season, price movements within a season are just as important, if not more so. The accompanying table shows when monthly average prices for soybeans (No. 1 yellow, Chicago) hit their season highs and lows during the past decade.

The high price is indicated by an "H" and the low by an "L". The difference appears in the righthand column. These differences--ranging from $0.55 to $7.54 a bushel--illustrate the importance of timing in marketing your beans.

The last 2 months of the marketing year--July and August--accounted for 6 of the season highs during 1970-79, while the first 2 months--September and October--accounted for 4 of the lows. Thus, soybean prices are generally lowest during harvest and highest toward the end of the crop year. On average during this 10-year period, prices in August were 15 percent higher than the preceding September.

So far, the present season is an exception to this generalization. Although July and August prices are as yet unknown, the monthly high so far was last November, and the low in June.

Weigh Your Marketing Options

If you're planning to hold your beans for sale at a later date, remember that storage costs vary with interest rates. Although soybean prices could rise, you have other options: investing

DISTRIBUTION OF SEASON HIGH AND LOW PRICES SIGNIFICANTLY CONSISTENT

Year[1]	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Range $/bu.
1970	L										H		0.57
1971			L									H	0.55
1972		L								H			7.54
1973									L			H	2.13
1974		H								L			3.18
1975				L							H		2.05
1976								H				L	4.08
1977		L							H				1.02
1978	L										H		1.56
1979								L				H	1.62
1980[2]			H							L			—
Totals													
Highs	0	1	0	0	0	0	0	1	1	1	3	3	
Lows	2	2	1	1	0	0	0	1	1	1	0	1	
Average price 1970-79 $/bu	5.44	5.29	5.33	5.39	5.36	5.53	5.75	5.86	6.11	6.30	6.22	6.24	

[1] Year beginning September 1. [2] Prices through June are included for 1980/81; these prices are not counted in the distribution of highs and lows and the monthly average prices at the bottom of table. Prices are for No. 1 yellow, Chicago.

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receipts from current sales in other markets--for example, the money market; or paying off current debts carrying a high interest rate.

The following simplified example shows how you can calculate the monthly cost of storing beans using the Commodity Credit Corporation (CCC) loan program.

Suppose you could sell beans for $7.25 a bushel or put them under CCC loan for $5.02 (the national average loan rate for 1981/82). The CCC interest rate is now 14 1/2 percent (it will be adjusted on October 1 and again on April 1, 1982).

1) Calculate the monthly return you forfeit by putting beans under loan rather than selling them for $7.25 a bushel. Let's assume an investment made with your soybean receipts would carry an interest rate of 16 percent:

$$\frac{0.16}{12} \times (\$7.25 - \$5.02) = \$0.03/\text{bu.}$$

2) Figure the monthly interest rate on the CCC loan:

$$\frac{.145}{12} \times (\$5.02) = \$0.06/\text{bu.}$$

3) Add storage costs per month. Assuming they are $0.03/bu., the total monthly cost of storage would be:

$$\$0.03 + \$0.06 + \$0.03 = \$0.12/\text{bu.}$$

In this example, soybean prices would have to increase 12 cents a bushel per month, or $1.08 over the 9-month CCC loan period, to cover storage and interest costs.

If you store beans on your farm without using the CCC loan program, the monthly storage cost would equal the returns you forfeit by delaying sales:

$$\frac{0.16}{12} \times (\$7.25) = \$0.10/\text{bu.}$$

In this example, prices would have to rise more than 10 cents a bushel per month to make holding beans worthwhile.